

Message Text

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ACTION ARA-14

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FM AMEMBASSY BUENOS AIRES

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E.O. 11652: N/A

TAGS: EGEN, ETRD, EFIN, AR

SUBJECT: MINISTER OF ECONOMY ADDRESSES STOCK EXCHANGE

1. SUMMARY: MINISTER OF ECONOMY MARTINEZ DE HOZ DELIVERED A MAJOR SPEECH JUL 20 AT A DINNER COMMEMORATING THE 123RD ANNIVERSARY OF THE STOCK EXCHANGE OF BUENOS AIRES. ASIDE FROM ADDRESSING THE SPECIAL PROBLEMS FACING THE CAPITAL MARKETS IN ARGENTINA, THE MINISTER SOUGHT TO REASSURE INVESTORS AND BUSINESSMEN CONCERNED ABOUT THE GOA'S PRICE CONTROLS AND TARIFF POLICIES. HE ALSO GAVE A RATHER ENCOURAGING REPORT ON THE ECONOMIC SITUATION, BOTH EXTERNALLY AND INTERNALLY. HIGHLIGHTS ARE SUMMARIZED BELOW.

2. WHILE RECOGNIZING THE ADVERSE EFFECT OF PRICE CONTROLS ON THE PROFIT OF LEADING FIRMS, THE MINISTER STRESSED THE TRANSITORY NATURE OF THESE MEASURES, AS WELL AS THE PROGRESS IN REDUCING THE NO. OF FIRMS SUBJECT TO PRICE CONTROLS (NO. HAS BEEN REDUCED FROM 700 TO 370). HE INDICATED THAT THE GOA WOULD NOT RETURN TO THE COMPLETELY LAISSEZ FAIRE SYSTEM OF 1976 BECAUSE "IT WAS NOT SUITABLE FOR A COUNTRY SUFFERING FROM INFLATIONARY SICKNESS." WHILE THE GOA BELIEVES IN THE LAWS OF THE MARKET, THE STATE
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CANNOT BE SIMPLY A SPECTATOR BUT MUST PLAY AN ACTIVE ROLE IN ORIENTING THE MARKET. THE STATE WILL ATTEMPT TO ENSURE COMPETITION BOTH INTERNALLY AND EXTERNALLY. BY ADJUSTING TARIFFS, THE GOA HAS ATTEMPTED TO PUT CEILINGS ON INTERNAL PRICES ABOVE WHICH THERE COULD BE COMPETITION FROM ABROAD. HE SAID THAT THE TARIFF CEILINGS ARE INTENDED TO PERMIT LOCAL FIRMS TO DEVELOP

AND TO HAVE ADEQUATE PROFIT MARGINS AND NOT TO INCREASE IMPORTS OF PRODUCTS MASSIVELY TO HURT LOCAL INDUSTRY. HE MENTIONED THAT THE GOA IS CONSIDERING THE APPROVAL OF NEW ANTITRUST LEGISLATION TO ENSURE FREE COMPETITION INTERNALLY, AS WELL AS AN ANTIDUMPING LAW TO PREVENT UNFAIR COMPETITION FROM ABROAD.

3. THE MINISTER STRESSED THE IMPORTANCE OF EXPORT PROMOTION AND NOTED THE RECORD 10.5 MILLION TONS OF GRAIN EXPORTS DURING JAN-JUNE 1977 AN AMOUNT HIGHER THAN TOTAL ANNUAL EXPORTS DURING EACH OF THE PAST FORTY YEARS. HE ALSO EXPRESSED SATISFACTION THAT MANUFACTURED EXPORTS IN THE FIRST SEMESTER OF 1977 WERE APPROX. ONE-THIRD LARGER THAN THOSE FOR THE SAME PERIOD IN 1976. HE MENTIONED THAT THE SYSTEM OF GENERALIZED PREFERENCES, WHICH HAS BEEN LITTLE USED BY ARGENTINA, OFFERED OPPORTUNITIES TO EXPAND INDUSTRIAL EXPORTS EVEN FURTHER.

4. THE MINISTER NOTED WITH SATISFACTION THAT IN THE FIRST SEMESTER OF 1977 ARGENTINA HAD A BALANCE OF TRADE SURPLUS OF 813 MILLION DOLLARS AND AN INCREASE IN INTERNATIONAL RESERVES OF 732 MILLION DOLLARS. THESE RESULTS WERE ACHIEVED DESPITE THE REDUCTION OF SHORT-TERM FOREIGN EXCHANGE GUARANTEE OBLIGATIONS ("SWAPS") FROM ALMOST 1.3 BILLION DOLLARS IN MARCH 1976 TO AROUND 50 MILLION DOLLARS TODAY. HE ADDED THAT THE MERCHANDISE TRADE

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BALANCE IN THE FIRST SEMESTER SHOWED A SURPLUS OF 1.1 BILLION DOLLARS, WITH EXPORTS OF AROUND 2.9 BILLION DOLLARS AND IMPORTS OF ALMOST 1.8 MILLION DOLLARS. HE SAID THAT THE INCREASES IN BOTH EXPORTS AND IMPORTS ARE SIGNS OF THE ECONOMIC RECOVERY OF THE COUNTRY.

5. THE MINISTER ANNOUNCED THAT GDP IN THE SECOND QUARTER OF 1977 ROSE 4.6 PERCENT WITH RESPECT TO THE SAME PERIOD IN 1976, WITH AGRICULTURAL PRODUCTION UP 16 PERCENT AND INDUSTRIAL PRODUCTION 1.6 PERCENT. HE SAID THAT GROSS FIXED INVESTMENT INCREASED 25.3 PERCENT AND INVESTMENT IN MACHINERY AND EQUIPMENT 20 PERCENT.

6. COMMENT: THE SPEECH WAS A CONFIDENCE BOOSTER. THE MINISTER CLEARLY SOUGHT TO REASSURE BOTH INVESTORS IN THE STOCK MARKET AND INDUSTRIALISTS THAT THE GOA IS SENSITIVE TO THEIR PROBLEMS AND IS NOT ABOUT TO OPEN THE GATES WIDE TO FOREIGN GOODS TO THE DETRIMENT OF LOCAL INDUSTRY. THE DAY FOLLOWING THE SPEECH, THE GOA ANNOUNCED AN INCREASE IN DUTIES ON SUGAR AND NOTED THAT IT WAS EXAMPLE OF PROTECTION OF LOCAL INDUSTRY WHEN INTERNATIONAL PRICES WERE UNDULY LOW.

7. ALSO HELPING TO INCREASE CONFIDENCE WERE THE GROWTH FIGURES FOR THE SECOND QUARTER WHICH WERE MUCH HIGHER THAN PRELIMINARY FORECASTS ATTRIBUTED TO GOA SOURCES AND REPORTED IN THE LOCAL PRESS. THE FIGURES ARE SOMEWHAT MISLEADING, HOWEVER, BECAUSE THE BASE OF COMPARISON IS THE PARTICULARLY DISASTROUS SECOND QUARTER OF 1976, WHICH SHOWED THE FOLLOWING GROWTH DECLINES IN RELATION TO THE SAME PERIOD IN 1975:
GDP, -5.1 PERCENT; INDUSTRIAL PRODUCTION, -6.6 PERCENT;
GROSS FIXED INVESTMENT, -14.0 PERCENT; AND INVESTMENT IN MACHINERY AND EQUIPMENT, -14.4 PERCENT.
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